US Embassy Jakarta
ECONOMIC SECTION

INDONESIA: ENERGY HIGHLIGHTS SEPTEMBER 2005

Summary

- The Government of Indonesia (GOI) raised prices of subsidized fuel by an average 126 percent on October 1, reducing significantly the gap between domestic and international prices.
- On September 10, the Ministry of Energy and Mineral Resources (MEMR) issued amendments to 2004 regulations on upstream oil and gas activity that allow upstream regulator BPMIGAS to extend Production Sharing Contracts (PSCs) up to 30 year.
- State oil company Pertamina formed an upstream exploration subsidiary on September 17, and renewed its production sharing contracts with upstream regulatory body BPMIGAS.
- On the same day, Pertamina and ExxonMobil signed a PSC with BPMIGAS for the development of the Cepu field in East Java.
- State gas company PGN received a USD 488,000 grant from the U.S. Trade and Development Agency (USTDA) for a compressed natural gas (CNG) distribution feasibility study.
- Singapore's Pearl Energy partially divested its interests in the Sebuku and Tungkal PSCs through a sale to Canada's Fuel-X International.
- The Indonesian firm PT Medco Energi acquired a 100 percent working interest in the Sembakung block in East Kalimantan. Medco also signed a deal to supply CNG to state electricity company PLN.
- An Indonesian subsidiary of the Australian firm Clough Limited secured a USD 100 million coal-mining contract with PT Mitra Internusa Persada

Note: This report uses an exchange rate of 1 USD = Rp 10,290

Fuel Prices Increased

At midnight on September 30, Coordinating Minister for Economic Affairs Aburizal Bakrie announced an average 126 percent hike in subsidized fuel prices. Presidential Regulation 55/2005 raised the prices of three grades of subsidized fuel, with household kerosene increasing the most from Rp 700 per liter (USD 0.07) to Rp 2,000 (USD 0.19) per liter or approximately 186 percent. An important feature of the Presidential Decree setting out the new fuel prices is a provision allowing the GOI to adjust prices in the future at the ministerial level. All previous price adjustments have come in the form of Presidential Decrees. According to Presidential Regulation No. 55/2005, fuel prices may now be adjusted up or down according to market prices. The Ministry of Energy and Mineral Resources will decide adjustments based on the "mutual agreement of related institutions coordinated by the Coordinating Ministry for the Economy." In an October 1 press release, the Coordinating Ministry for the Economy stated that this gradual market price adjustment mechanism for premium, diesel and kerosene would begin in 2006. The GOI has set a target for completely phasing out gasoline and diesel subsidies by the end of 2006, and kerosene subsidies by the end of 2007.

Table 1: Retail Fuel Price Changes (in Rp/liter)

	Jan-05	Mar-05	Oct-05	Increase*
Premium	1,810	2,400	4,500	88%
Gasoil	1,650	2,200	4,300	95%
Kerosene	700	700	2,000	186%

Note: * Percentage increase from March 2005 prices.

Upstream Regulation Amended

On September 10, President Yudhoyono issued Regulation 34/2005 on upstream oil and gas activity. The GOI said the regulation was necessary to accelerate the country's oil and gas production. According to the regulation, events of "national urgency" will permit BPMIGAS to make exceptions and changes to Production Sharing Contract (PSC) agreements, including extending the contract period and changing the formulas for investment recovery, regional participation interest and production splitting. The new regulation gave BPMIGAS the legal authority to extend ExxonMobil and Pertamina's contract for the Cepu block for up to 30 years, which it exercised on September 17. Previous regulations limited extensions to 20 years.

Pertamina Update

State oil and gas company Pertamina had a busy September. On September 17, the firm renewed its concession contracts with upstream regulatory body BP MIGAS and restructured itself into two sub-holding companies. Law 22/2001 and subsidiary regulations require Pertamina to change its structure to a limited liability company and hand over its regulatory authority to upstream regulator BPMIGAS. The newly formed subsidiary, Pertamina Exploration and Production (E&P), acts as a sub-holding company for Pertamina’s upstream operation and will manage the company's 142,000 square kilometers of concession areas. In its concession contracts, Pertamina E&P committed to a 6-year exploration agreement with total investment of approximately USD 51.8 million. The contract renewals are for all existing Pertamina work areas except for two blocks, Cepu and Randugunting.

Pertamina and ExxonMobil also signed a Production Sharing Contract (PSC) with BPMIGAS on September 17 for the Cepu block in East Java. The Cepu block, on which development has been idle for four years, is estimated to contain 500 million barrels of reserves with expected peak production of 170,000 barrels per day (bpd). Exploiting Cepu’s reserves is an important part of the GOI’s strategy to lift Indonesia’s oil production to a target of 1.3 million bpd while reducing net imports. The MEMR has reportedly offered Pertamina and ExxonMobil a USD 15 million signing bonus and a USD 5 million production bonus once cumulative production reaches 10 million barrels.

PGN received grants from USTDA

State-owned gas company PGN signed a USD 488,000 grant agreement with the U.S. Trade and Development Agency (USTDA) on September 26 to finance a four-year feasibility study of compressed natural gas (CNG) distribution. The study will also evaluate alternatives to traditional gas pipelines, including marine transport. PGN will fund USD 54,000 to support the project logistics. PGN received a similar grant from USTDA in 2003 to finance a feasibility study of the Kalimantan-Java pipeline project.

Pipeline Construction

On September 29, PGN announced three procurement contracts for the construction of South Sumatra-West Java phase II (SSWJ-II) pipeline project:

- Welspun Gujarat Stahl Rohren Ltd received a USD 92 million contract to supply coated pipes for the 185 kilometer Grissik-Pagardewa onshore pipeline.
- Indonesian pipe manufacturer PT KHI Pipa Industries won USD 15 million contract to supply pipes for the Muara Bekasi-Rawa Maju pipeline.

- PT Multi Superindo Manunggal received a USD 3 million contract for the supply of valves.

Once completed, the SSWJ-II project will have a capacity of approximately 400 million cubic feet per day (MMCFD), transporting gas from Pertamina's Pagardewa field and ConocoPhillips' Grissik field in South Sumatra to West Java. Earlier PGN also opened tenders for the construction of the 165 kilometer Labuhan Maringgai-Muara Bekasi offshore pipeline. The total SSWJ-II project cost is estimated at USD 542 million with construction expected to begin in November 2005.

Pearl Divests; Medco Steps Up

On September 29, Singapore's Pearl Energy signed an agreement with Canada's Fuel-X International to sell a 50-percent stake in the Sebuku PSC and 30-percent stake in the Tungkal PSC, located in the Makassar Strait and onshore Sumatra respectively. Pearl continues to hold the remaining shares and operate both blocks. The deal is reported to be worth up to USD 12 million for the Sebuku PSC and USD 13.5 million, plus as much as an additional USD 1.5 million in exploration well costs for the Tungkal PSC. The Tungkal PSC started producing oil from the Mengoepeh field in 2004 and currently has a production level of 2,100 bpd.

On September 23, Indonesia's Medco Energi, through its subsidiary Medco Far East Limited, acquired 100 percent interest in the Sembakung block in East Kalimantan from Perkasa Equatorial Sembakung Ltd, a subsidiary of Mauritius' Synergy Petroleum. The acquisition, reportedly valued at USD 29.7 million, complements Medco's existing portfolio in East Kalimantan. Medco already owned an interest in the neighboring Tarakan and Simenggaris block and has a methanol facility nearby. The Sembakung block has proven reserves of 12.6 million barrels of oil equivalent (MMBOE) and produces approximately 5,000 bpd, as of January 2005.

Medco/Pertamina Gas to PLN Plants

Medco Energi and Pertamina signed a Memorandum of Understanding (MOU) with state electricity company PLN to supply CNG for its gas-fired power plants in Bali and Sulawesi. The gas will come from the Senoro Toili block in Central Sulawesi and the Simenggaris block in East Kalimantan. Medco owns a 50 percent and 62.5 percent stake in each field, respectively. Medco will transport the CNG via ship for distances as long as 1,500 kilometers. The partners are still negotiating the pricing and quantity of the gas to be supplied.

Petrosea Signed Mining Contract

Australia's Clough Limited announced that its Indonesian subsidiary PT Petrosea Tbk secured a mining contract with PT Mitra Internusa Persada on September 27. The four-year contract, reportedly valued at USD 100 million, commits Clough to a maximum USD 10 million in new plant investments. Petrosea will perform overburden stripping and coal mining activities at the Sanga Sanga coal concession in East Kalimantan. The engineering, construction, and mining company performed similar work for PT Gunung Bayan Pratama Coal, and owns an interest in the Santan Batubara coal concession in East Kalimantan.